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Message Text

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46
ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 SAM-01 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

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E.O. 11652: N/A
TAGS: EFIN, EEC
SUBJECT: EC COMMISSION ALLOWS THE UK TO MAINTAIN RESTRICTIONS
ON EC CAPITAL FLOWS

1. SUMMARY: THE EC COMMISSION GRANTED A DEROGATION TO THE UK'S TREATY OBLIGATIONS TO LIBERALIZE CAPITAL MOVEMENTS WITHIN THE EC. THE COMMISSION SET FORTH SEVERAL ECONOMIC POLICY RECOMMENDATIONS FOR THE UK TO FOLLOW. END SUMMARY.

2. THE EC COMMISSION GRANTED ON JULY 23 A UK REQUEST FOR A DEROGATION FROM CERTAIN PROVISIONS OF THE EC ACCESSION TREATY. THE TREATY REQUIRES THE UK TO LIBERALIZE ITS RESTRICTIONS ON DIRECT INVESTMENTS IN THE EC BY JANUARY 1, 1975. IT ALSO REQUIRES THE UK TO REMOVE RESTRICTIONS ON CERTAIN PERSONAL CAPITAL MOVEMENTS SUCH AS WORKER REMITTANCES, GIFTS, AND REAL ESTATE INVESTMENTS BY JULY 1975. THE UK ASKED FOR THE DEROGATION BECAUSE OF ITS CURRENT BALANCE-OF-PAYMENTS DIFFICULTIES. THE DEROGATION WILL CONTINUE FOR AN INDEFINITE PERIOD UNTIL THE UK
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BALANCE-OF-PAYMENTS SITUATION IMPROVES. THE COMMISSION

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WILL REVIEW THE UK SITUATION WITHIN THE NEXT YEAR.

3. BEFORE GRANTING THE DEROGATION THE COMMISSION WAS REQUIRED TO INVESTIGATE THE UK'S ECONOMIC SITUATION AND TO DRAW UP ECONOMIC POLICY RECOMMENDATIONS WHICH THE UK SHOULD UNDETAKE TO CORRECT ITS DIFFICULTIRES. THE COMMISSION'S RECOMMENDATIONS CORRESPOND CLOSELY TO THOSE MEASURES WHICH THE UK RECENTLY ANNOUNCED TO STABLIZE ITS ECONOMY. (COPIES OF THE RECOMMENDATIONS ARE BEING SENT TO WASHINGTON AGENCIES, INCLUDING RPE/CLARK, AND EMBASSY LONDON.)

4. THE RECOMMENDATIONS FOCUS ON THE UK'S NEED TO REDUCE PRICE INFLATION AND ITS CURRENT ACCOUNT DEFICIT. THE COMMISSION SUGGESTS THAT THE UK SHOULD NOT RESORT TO AN EXTENSIVE DEPRECIATION IN ITS FOREIGN EXCHANGE RATE TO RESTORE EQUILIBRIUM. SUCH A DEPRECIATION WOULD NOT ATTACK BASIC PROBLEMS AND WOULD EXACERBATE INFLATIONARY PRESSURES. SIMILARLY, PROTECTIONIST MEASURES WOULD BE INAPPROPRIATE BECAUSE THEY WOULD NOT IMPROVE THE UK'S COMPETITIVE POSITION AND COULD RESULT IN RETALIATORY MEASURES. THE COMMISSION SUPPORTS THE INCOMES POLICY OF THE UK AND CALLS FOR NO INCREASE IN REAL DISPOSABLE INCOME UNTIL SUBSTANTIAL PROGRESS HAS BEEN MADE IN RESTORING ECONOMIC EQUILIBRIUM. PUBLIC SECTOR BORROWING SHOULD NOT EXCEED 9 BILLION POUNDS IN THE CURRENT FISCAL YEAR AND SHOULD BE REDUCED FURTHER NEXT YEAR. MONETARY POLICY SHOULD BE RESTRICTIVE; MONEY SUPPLY BORADLY DEFINED (M3) SHOULD BE WELL BELOW THE TARGET RATE OF PRICE INFLATION OVER THE NEXT 18 MONTHS.

5. COMMENT: UK AUTHORITIES COORDINATED THESE RECOMMENDATIONS WITH THE COMMISSION AND, WE ARE TOLD, AGREED TO THEM. THE UK EARLIER THIS YEAR HAD ASKED FOR THE DEROGATION. NEGOTIATIONS WERE PUT OFF, HOWEVER, UNTIL AFTER THE BRITISH REFERENDUM IN ORDER TO AVOID POSSIBLE CHARGES THAT THE COMMISSION EAS DICTATING TERMS TO THE UK. FRANCE HAS A SIMILAR LIMITED OFFICIAL USE

DEROGATION THAT WAS GRANTED FOR AN INDEFINITE PERIOD. IN AGREEING TO A COMMISSION REVIEW OF ITS ECONOMIC SITUATION WITHIN A YEAR, THE UK REPORTEDLY ASKED THE COMMISSION TO LOOK ALSO AT THE FRENCH SITUATION. THE COMMISSION AGREED AND WILL TAKE UP THE FRENCH DEROGATION IN THE FALL. END COMMENT.MORRIS

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